



**NSTAR Electric**

**Direct Testimony of Rose Ann Pelletier**

**Exhibit NSTAR-RAP**

**D.T.E. 02-80**

1    **Q.    Ms. Pelletier, please state your name and business address?**

2    A.    My name is Rose Ann Pelletier. My business address is 800 Boylston Street,  
3           Boston, Massachusetts.

4    **Q.    By whom are you employed and in what capacity?**

5    A.    Currently, I am Director of Transmission and Power Contract Administration for  
6           NSTAR. In that capacity, I am responsible for coordinating and managing issues  
7           associated with power and transmission purchase and sales contracts for Boston  
8           Edison Company ("Boston Edison"), Cambridge Electric Light Company  
9           ("Cambridge") and Commonwealth Electric Company ("Commonwealth")  
10          (together, "NSTAR Electric").

11   **Q.    Please describe your educational background and business experience.**

12   A.    I graduated from Providence College in 1977 earning a Bachelor's degree in  
13          Economics and from Boston College in 1979 with a Master's degree in  
14          Economics. In 1980, I joined Boston Edison as a research analyst in the Rates  
15          Department. Subsequently, I have held positions as Fuel Rate Analyst, Fuel Rate  
16          Administrator, Fuel Rate and Unit Performance Administrator, and Manager of  
17          Power Contracts.

18   **Q.    Have you previously testified in proceedings before the Department?**

19   A.    Yes, I have testified in a number of proceedings before the Department, most

1 recently in support of the 2001 annual true-up filings in D.T.E. 01-78 and DTE-01-  
2 79.

3 **Q. What is the purpose of your testimony?**

4 A. The purpose of my testimony is to provide support for the NSTAR Electric's request  
5 for approval of the proposed Standard Offer Service rate to become effective  
6 January 1, 2003. My testimony also requests approval of the 2002 preliminary  
7 reconciliation of Standard Offer and Default Service expenses and revenues and  
8 presents an estimate of such expenses and revenues for 2003. Finally, I will  
9 describe NSTAR Electric's efforts to mitigate its transition costs to the maximum  
10 extent possible, consistent with the Act and the Boston Edison Company  
11 Restructuring Settlement Agreement ("Restructuring Settlement") approved by the  
12 Department in D.P.U./D.T.E. 96-23. I will also describe how the NSTAR Electric  
13 procures Standard Offer and Default Service for its customers and the NSTAR  
14 Electric's proposal for continued procurement during the year 2003.

15 **Q. Please describe the format of your testimony and exhibits.**

16 A. This year, NSTAR Electric is submitting its reconciliation filing for the individual  
17 companies on a consolidated basis for review under a single docket. Following  
18 the convention used by others in this docket; the term NSTAR Electric will refer  
19 to all three companies in cases where there is common treatment of a particular  
20 issue. If there are issues that are unique to a particular company then I will  
21 specify it by a company name. Supporting schedules are identified by a three-  
22 letter designator denoting the Company; "BEC" for Boston Edison, "CAM" for

1 Cambridge and "COM" for Commonwealth. My testimony below follows a  
2 similar convention. When I am discussing items common to all three companies,  
3 I use the term NSTAR Electric and will refer to all three exhibits instead of a  
4 specific company name, (e.g., the RAP-1 Exhibits to refer to all Exhibits BEC-  
5 RAP-1, CAM-RAP-1 and COM-RAP-1). In cases where I am discussing things  
6 unique to a particular company, I will use the company name and will refer to an  
7 exhibit using that company's specific identifier (e.g., Exhibit BEC-RAP-1).

8 **Q. What exhibits are you sponsoring in your testimony?**

9 A. I am sponsoring two exhibits for each company as well as this testimony,  
10 Exhibit NSTAR-RAP. The RAP-1 Exhibits set forth the preliminary  
11 reconciliation of Standard Offer and Default Service showing both supply  
12 expenses and revenues for 2002. The RAP-2 Exhibits set forth the similar  
13 reconciliation for the 2003 period.

14 **Q. What rates is NSTAR Electric proposing for Standard Offer Service?**

15 A. The Standard Offer rate for Boston Edison is set at 4.95 cents per kilowatthour  
16 ("kWh"), the same rate as in effect for 2002. The Standard Offer rates for  
17 Cambridge and Commonwealth are set at 4.7 cents per kWh, an increase from the  
18 4.2 cents per kWh rate in 2002.

19 **Q. Please explain Exhibits BEC-RAP-1, CAM-RAP-1 and COM-RAP-1.**

20 A. These exhibits are the reconciliation of Standard Offer and Default Service showing  
21 both preliminary supply costs and revenues for the year 2002. Each exhibit contains

1       ten months of actual data and two months of projected data for 2002. Each exhibit  
2       is arranged in the same manner. On page 1, the total deferral balance is shown for  
3       each month of the respective year. Page 2 shows the revenues and costs each month  
4       for Standard Offer Service. It adds or subtracts the monthly over- or under-recovery  
5       to the prior month balance, adjusts for a carrying charge and calculates the new end-  
6       of-month deferral. Page 3 is the same as page 2, except that it calculates the  
7       monthly deferral for Default Service, rather than for Standard Offer Service. Page 4  
8       shows the MWh associated with long-term purchased-power contracts ("PPAs")  
9       and the resulting PPAs transfer costs. The PPA transfer prices (or "DistCo  
10      Settlement Price (\$/kWh)") are set at a level that is projected to result in a zero  
11      deferral balance, i.e., there will be neither an over-recovery nor an under-recovery of  
12      costs in comparison to the projected revenues for Standard Offer Service. Page 5  
13      summarizes the contracted cost of power under the PPAs; this expense is reflected  
14      in Mr. Lanzel's exhibits. Page 6 details the costs and gigawatt-hour ("GWh")  
15      purchases for short-term power transactions used to supplement existing resources  
16      needed to provide Standard Offer Service. Page 7 shows the revenues and  
17      associated GWh sales for Standard Offer Service and Default Service. For Boston  
18      Edison and Cambridge, page 8 shows the GWh sales to wholesale customers, and  
19      calculates the wholesale percentage of total sales, when total sales are the sum of  
20      wholesale and retail standard offer sales.

21   **Q.     Please explain Exhibits BEC-RAP-2, CAM-RAP-2 and COM-RAP-1.**

22   **A.     These exhibits reflect a forecast of the reconciliation of Standard Offer and Default**

1 Service showing both supply costs and revenues for the year 2003.

2 **Q. What is the source for Standard Offer and Default Service revenues shown in**  
3 **the RAP-1 and RAP-2 Exhibits?**

4 A. The revenues through October 2002 for Standard Offer and Default Service are  
5 taken from the NSTAR Electric's general ledgers; forecast revenues are reflected for  
6 the November through December 2002 period and for calendar year 2003. The  
7 Default Service rates for 2003 reflect the rates filed by NSTAR Electric and  
8 subsequently approved by the Department. The rates for Standard Offer Service  
9 reflect the rates proposed in proposed in this filing.

10 **Q. How did NSTAR Electric calculate expenses for Standard Offer Service as**  
11 **shown in this filing for 2002 and 2003?**

12 A. There are two categories of expenses incurred to provide Standard Offer Service:  
13 power-purchase contracts and short-term market transaction. The power-purchase  
14 contracts are purchased under long-term commitments made before industry  
15 restructuring. The costs of these contracts are included as a variable transition cost  
16 and are "purchased" to provide Standard Offer Service at a transfer price. As stated  
17 above the PPA transfer prices (or "DistCo Settlement Price (\$/kWh)") are set at a  
18 level that is projected to result in a zero deferral balance, i.e., there will be neither an  
19 over-recovery nor an under-recovery of costs in comparison to the projected  
20 revenues for Standard Offer Service. On page 2 of RAP-1 and RAP-2 Exhibits, the  
21 costs of short-term market transactions are added to the costs of the power-purchase  
22 contracts and, if appropriate, reduced by the amount attributed to wholesale sales in  
23 accordance with the Department's decision in D.T.E. 99-107 (Phase II).

1   **Q.   How did NSTAR Electric calculate expenses for Default Service in this filing?**

2   A.   In 2002 NSTAR Electric purchased supplies for Default Service from the  
3       competitive market through a dedicated contract after issuance of a request for  
4       proposals. The costs included through October 2002 are based on actual expenses  
5       incurred and for subsequent months are based on projections of costs to be incurred  
6       under those approved contracts.

7   **Q.   How are the Standard Offer and Default Service deferral balances calculated?**

8   A.   The monthly deferrals are the difference between revenues and expenses. The  
9       deferrals also incorporate an interest component.

10  **Q.   Please explain the interest calculation.**

11  A.   The Standard Offer Service deferral accrues interest at the rate for customer deposits  
12       in accordance with NSTAR Electric's approved restructuring plans. The monthly  
13       deferral is the difference between the revenues and the cost of supply for each  
14       month. For each month, interest is applied to the prior month's cumulative deferral  
15       plus one-half the current month's deferral. The monthly interest is then  
16       incorporated in the cumulative deferral. The monthly Standard Offer interest  
17       calculation can be found on page 2 of the RAP-1 and RAP-2 Exhibits; the monthly  
18       Default Service interest calculation can be found on page 3 of the same exhibits.

19  **Q.   Is NSTAR Electric mitigating its transition costs?**

20  A.   Yes. The Act and the approved restructuring plans require that NSTAR Electric to  
21       take all reasonable steps to mitigate its transition costs "to the maximum extent  
22       possible" and encourages electric companies to divest their generating assets and

1 renegotiate or buy-out of above-market PPAs.

2 **Q. During 2002 has NSTAR Electric attempted to renegotiate the terms of the**  
3 **PPAs in good faith?**

4 **A. Yes.**

5 **Q. Has NSTAR Electric been successful in renegotiating or buying out any of its**  
6 **PPA contracts?**

7 **A. Yes, in 2002, NSTAR Electric bought-out and terminated its contract obligation**  
8 **with Seabrook, which resulted in a forecasted savings of approximately \$8 million**  
9 **for customers. In addition, NSTAR Electric restructured the PPA for the output**  
10 **of the Vermont Yankee nuclear facility with a forecasted savings for customers of**  
11 **approximately \$7 million. NSTAR Electric continues to be involved in**  
12 **negotiation efforts with other suppliers to sell, buy-out, or renegotiate its**  
13 **remaining long-term PPAs.**

14 **Q. Why does the Company believe that it has mitigated its transition costs**  
15 **associated with the PPAs to the maximum extent possible?**

16 **A. Consistent with the Act and NSTAR Electric's restructuring plans, NSTAR**  
17 **Electric has attempted to mitigate its transition costs associated with PPAs**  
18 **through good-faith renegotiations and buy-outs. NSTAR Electric's customers**  
19 **have realized significant savings because of these efforts and will continue to**  
20 **realize savings in the future if and when NSTAR Electric further reduces its PPA**  
21 **obligations through renegotiation, sale and buy-outs of these contracts. However,**  
22 **NSTAR Electric will proceed with a divestiture of a PPA contract only to the**  
23 **extent that the transaction will result in net benefits for its customers. If a**



1 divestiture transaction would result in additional costs for customers and not  
2 produce maximum mitigation of transition costs, NSTAR Electric will not pursue  
3 it. For example, it would not be in customers' best interest to sell existing power  
4 contracts at an imputed price of 3 cents per kWh and then proceed to procure  
5 Standard Offer supplies at 6 cents per kWh. NSTAR Electric continues to explore  
6 all alternatives to reduce its transition costs associated with PPAs.

7 **Q. Describe how NSTAR Electric currently obtains Standard Offer Service for**  
8 **its customers.**

9 **A.** Since the implementation of electric industry restructuring in March 1998, NSTAR  
10 Electric has been responsible for supplying retail customers with Standard Offer and  
11 Default Service. NSTAR Electric periodically issues RFPs to augment resources  
12 needed to serve Standard Offer Service customers. In 2000, NSTAR Electric  
13 entered into short-term arrangements for the six-month periods January through  
14 June and July through December. In 2001, NSTAR Electric entered into short-term  
15 arrangements throughout the year. For both 2002 and 2003, NSTAR Electric has  
16 entered into a short-term arrangement for a twelve-month period. NSTAR Electric  
17 is continually evaluating proposals to augment its PPA resources in a cost-effective  
18 manner in order to provide Standard Offer Service.

19 **Q. What is NSTAR Electric's current plan regarding the solicitation of power**  
20 **supply for Default Service?**

21 **A.** NSTAR Electric has implemented market-based rates for Default Service in  
22 accordance with the procedures established by the Department in D.T.E. 99-60.  
23 The Default Service rate reflects a market-based price to provide the service.

1 NSTAR Electric, on behalf of Boston Edison, Cambridge and Commonwealth,  
2 will continue to solicit bids for Default Service supply and set rates at market  
3 levels in accordance with the requirements of the Act and the Department's  
4 procedures established in D.T.E. 99-60

5 **Q. Does this conclude your testimony?**

6 **A. Yes.**